



Number 566

February 3, 1975

Part 2

SPECIAL SUPPLEMENT

HIGHLIGHTS OF FISCAL YEAR 1976 BUDGET FOR DEFENSE, SPACE,
FEDERAL R&D, FEDERAL GRANTS AS PRESENTED TO
CONGRESS ON FEBRUARY 3, 1975 BY PRESIDENT FORD

SPACE PROGRAM: NO "NEW STARTS," BUT NASA BUDGET REQUEST UP 9% OVER FY 1975

For the first time in at least a decade the National Aeronautics and Space Administration's budget request contains no funds for the start of any new programs. But the space agency's projected funding for fiscal 1976, at \$3,539,000,000 in new obligational authority, shows a 9 percent increase over the current year, with a \$345 million net increase in its research and development programs.

For fiscal 1977, the projection is for slightly over \$3.6 billion, including some \$50 million for new starts. NASA officials indicated that their planning for new starts in FY 1976 was killed at the Office of Management and Budget as a result of President Ford's ukase barring "new spending." However, official budget projections beyond 1977 (which are usually understated) show NASA funding declining by about 10 percent a year.

When funding elsewhere in the Government is taken into consideration, the total for space activities in FY 1976 comes to well over \$4 billion. The Defense Department request includes \$622 million for military astronautics, up from this year's \$522 million, and the Energy Research and Development Administration has \$31 million for space nuclear R&D as a continuation of the former Atomic Energy Commission program in this area.

NASA Administrator James C. Fletcher termed the 1976 budget "lean but manageable." He pointed out that while the net total is up about \$300 million from this year (about 9 percent), about \$200 million of this amount "was specifically anticipated in (the 1975) budget as required to carry forward essential commitments built into the programs presented and approved in FY 1975."

Thus, he said, "on an overall basis, we have an effective increase of only about \$100 million, or just about 3 percent. Since we have been experiencing inflation rates of over 9 percent, this is a good indicator of the leanness of NASA's FY 1976 budget and the degree to which it has been constrained . . ."

One way more money has been squeezed out for research and development has been to reduce the construction of facilities--construction funding is scheduled to drop from a budgeted \$142.6 million this year to \$84.6 million.

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Funding for the major space shuttle, is scheduled for a large jump in FY 1976, to \$1.2 billion from this year's level of \$797.5 million. Some offset for this increase is obtained in a \$100 million decline in the category "space flight operations," representing completion of funding for the joint U.S.-Soviet Apollo-Soyuz project.

There is also a decrease in funding for the Mars Viking lander program, which serves to provide a net decrease in the entire lunar and planetary exploration program from this year's \$366 million to \$260 million.

Launch vehicle procurement goes up from \$140.5 million to \$167 million. The space applications area remains relatively stable at \$175 million, with the Landsat-C (Formerly ERTS-C) experimental resources satellite project given approval to proceed. There had been concern in Congress and in the scientific community that this project might be sacrificed to the budget squeeze.

For energy technology applications--a new line item in the NASA budget--funding goes up from \$.4 million to \$5.9 million. NASA will work closely in this area with the new Energy Research and Development Administration.

For aeronautical research and technology the FY 1976 funding goes to \$175 million from this year's \$166.4 million. Dr. Fletcher noted that "aircraft energy reduction" will continue to be a principal focus in this effort. He reported that NASA has already "identified technologies which have the potential in the next 10 years to reduce the fuel requirements of commercial jet aircraft by 50 percent." If achieved by 1985 and applied to the number of U.S. commercial planes flying today, the savings in petroleum requirements would be nearly one-third of a million barrels per day, he said.

On the Space Shuttle, he gave the current run-out cost at \$6.3 billion, compared with the original \$5.2 billion estimate. Development will proceed on the current schedule, he said; while some adjustments have had to be made to keep within the budget, there will not be "another disruptive slip" as was necessary under the FY 1974 and 1975 budgets.

Budget restrictions caused NASA to defer obligations agency-wide of \$72 million in FY 1975, with the possibility of some slippage in launch schedules and some application programs. Small amounts were taken from a number of space applications and lunar-planetary projects, but no projects were suspended.

But Dr. Fletcher noted that if present inflation rates increase, "we would need to make further program adjustments as we go along."

Total NASA-related contractor employment in FY 1976 is expected to remain at around the 107,000 mark, compared with the low point of about 101,000 in June 1974. Support service contracting is expected to continue the decline of the last several years, going from 18,500 this year to 17,700 by the end of the next fiscal period.

NASA budget tables appear in Section C of this Supplement. They include "transition" funding for the three-month period July-September 1975, before the new fiscal year of October 1 goes into effect. The "transition" funding request is approximately at an annual rate of \$3.6 billion.

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GOV'T RESEARCH: 15% INCREASE IN FEDERAL R&D OBLIGATIONS SOUGHT, LED BY DEFENSE, ENERGY

The fiscal 1976 budget contains requests for research and development funding that, Government-wide, total \$21.6 billion in obligations, an increase of about 15 percent over 1975's estimated \$18.8 billion. Actual spending would come to about \$20.7 billion. When construction work on R&D facilities is included, the obligations total for FY 1976 comes to \$22.6 billion.

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Department of Transportation obligation for R&D will be \$402 million for FY 1976, up from \$368 million, plus \$14 million for related facilities. Increased emphasis is to be placed on "socioeconomic aspects of the nation's transportation requirements," as well as achievement of solutions for current problems.

Environmental Protection Agency R&D obligations are scheduled to rise from \$287 million to \$300 million. In the water pollution control program, increased attention will be given to demonstration of control technologies capable of reducing the capital and operating costs of municipal waste treatment; investigation of the health effects of land disposal of sludge, and other pollution control areas affecting the oceans and agriculture.

Additional effort will also be given to developing more cost effective technologies for small water supply systems.

Department of Commerce will increase its R&D obligations by \$19 million, to \$230 million. Increases are provided for the National Oceanic and Atmospheric Administration as well as for the National Bureau of Standards. For the Maritime Administration, the emphasis in 1976 will be on improvements in shipbuilding methods and equipment, and development of shipping operations information systems.

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GRANTS: AID TO STATE, LOCAL GOV'TS PUT AT \$56 BILLION; PRESIDENT CALLS FOR CHANGES

Funding for direct federal aid to State and local governments is expected to total \$56 billion in fiscal 1976, up \$3 billion over the current year. President Ford, in transmitting his new budget to Congress, emphasized that the growth of domestic assistance programs cannot continue to expand at the rates experienced over the past two decades, and redoubled efforts must be made to "rationalize and streamline these programs."

Federal aid will finance about 22 percent of all State and local government expenditures in 1976, according to an analysis by the Office of Management and Budget (Special Analysis 0), and will represent 16 percent of total Federal Government outlays. In 1965, grants were only 9 percent of the budget and 15 percent of State and local expenditures.

The President declared that continued growth at the present rate would put federal spending for domestic assistance programs at more than half the national output. He also observed that these programs have grown "in a largely unplanned, piecemeal fashion," and that "rationalizing and streamlining" them will mean "working toward a stable and integrated system of programs that reflects the conscience of a compassionate society but avoids a growing preponderance of the public sector over the private."

It also means, he said, decentralizing Government operations and developing a closer partnership among the Federal Government, State and local governments, and the individual private citizen.

The Department of Health, Education, and Welfare will continue in fiscal 1976 to be far and away the largest dispenser of federal aid, but the upward growth trend is halted in the Administration's estimate for the coming year, at \$20.2 billion, down \$300 million. The largest increase is exhibited by the Department of Housing and Urban Development, to \$4.6 billion from this year's \$3.3 billion. Environmental Protection Agency expenditures stand about level at \$2.4 billion, while Department of Transportation goes from \$5.9 billion to \$6.2 billion.

Expenditures by agency are as follows: (Text)

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Table O-1. FEDERAL-AID EXPENDITURES BY AGENCY (in millions of dollars)

Agency	1974 actual	1975 estimate	1976 estimate
Department of Agriculture.....	5,112	6,279	5,874
Department of Commerce.....	260	277	263
Department of Defense--Military.....	64	73	83
Department of Health, Education, and Welfare.....	19,138	20,579	20,259
Department of Housing and Urban Development.....	3,147	3,372	4,678
Department of the Interior.....	452	540	605
Department of Justice.....	637	698	754
Department of Labor.....	2,651	4,117	4,161
Department of Transportation.....	5,108	5,592	6,239
Department of the Treasury.....	6,302	6,505	6,637
Environmental Protection Agency.....	1,623	2,429	2,478
Veterans Administration.....	26	53	66
Community Services Administration.....	639	462	347
District of Columbia.....	187	230	254
Legal Services Corporation.....	-----	42	65
Washington Metropolitan Area Transit Authority.....	170	185	182
Other.....	522	717	687
Energy tax equalization payments.....	-----	500	2,000
Total expenditures for Federal grants.....	46,040	52,649	55,632

(End of Text)

Major new highway grant legislation will be proposed by the Administration, focusing on completion of key segments of the Interstate system. Other major capital expenditure programs include the new federal support for mass transit under the National Mass Transportation Assistance Act of 1974. Highway spending under federal grants to urban areas is estimated at \$2.7 billion in FY 1976; urban mass transport, \$994 million; HUD community development grants, \$1.3 billion. General Revenue Sharing will account for about \$6.2 billion in distributions by the Treasury Department.

Details of the proposed federal aid program will appear in a special report in the next issue of FCR.

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DEFENSE PROGRAM: RECORD "LONG HAUL" BUDGET CALLS FOR \$106.7 BILLION BUDGET AUTHORITY, SPENDING UP \$8 BILLION

The record Defense Department budget submission for fiscal 1976, described by Defense Secretary James Schlesinger as a "substantial one" and a "long haul budget," calls for budget authority of \$106,340,000,000--up nearly \$16 billion from fiscal 1975--with outlays of \$92.8 billion, up from FY 1975's \$84.8 billion.

Included within the above figures for Budget Authority (formerly referred to as new obligational authority, the amount for which the Administration actually seeks congressional approval) are \$24.4 billion for Procurement, up nearly \$8 billion; \$10.2 billion for Research Development, Test and Evaluation, up \$1.6 billion; and \$29.3 billion for Operation and Maintenance, up \$3 billion.

Comparable spending figures for the DOD FY 1976 budget for the three categories, are, respectively, \$16.5 billion, \$9.6 billion, and \$28.3 billion.

The Defense Secretary told newsmen at the Pentagon that, as required by recently enacted law, DOD also is including a five-year budget forecast that includes an annual growth of about two percent in purchasing power. The budget, for the first time, provides "adequate protection except in the O&M account against inflation," he said. Further, some of the items contained in the new budget request "reflect the fact that a decision was taken not to submit a supplemental for '75.

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"Among other things, this includes a cure for the under-funding in the procurement account for ship construction. That a under-funding, of course, is attributable to inadequate inflation estimates in prior year appropriations."

Schlesinger observed that "the budget is a substantial increase over the eroded base with which we emerged from the 1975 budget process, partly as a result of Congressional reductions but in large part as a result of the ravages of inflation."

The budget submission was described officially as providing an increase in real purchasing power "to reverse the trends which have resulted in sharp declines in recent years." DOD stated further that, "While the request is still below the levels contemplated in last year's budget, it is a step in the direction which should result in significant improvements in the defense resource picture in the years subsequent to FY 1976."

The DOD budget estimates are based on a number of assumptions that are dependent upon the will of Congress. For instance, the FY 1976 estimates assume approval of President Ford's proposals to hold federal pay raises and retiree cost-of-living increases to 5 percent, and enactment of legislation that would produce income from sale of petroleum from the U.S. reserves. Otherwise the budget request would go up about \$2.2 billion. For FY 1977 and later years, the estimates in current prices are even more dependent upon assumptions as to pay raises, price increases, and congressional actions in such areas as petroleum reserves.

The more than \$15.5 billion increase in the new budget is largely needed to cover pay raises and inflation, according to DOD. It also includes some \$2.3 billion to cover increased costs for ships approved earlier by Congress in FY 1975 and earlier years, largely due to unforeseen inflation. This involves no new program and no additional shipbuilding for FY 1976.

It was explained that while this sort of problem has arisen in many areas, it is much greater in shipbuilding because of the very long leadtimes involved. An underestimate of inflation rates for ships can cause a funding problem that is many times greater than for systems with shorter leadtimes due to the effects of compounding over many years.

According to DOD, while the FY 1976 budget is higher in current prices than last year's projection, it is still considerably lower in terms of real buying power, which means that the real increase will not result in a significant improvement in the DOD resource picture until the years following FY 1976. DOD charts on the annual inflation rate showed that the compound total effect of inflation on the defense budget for the years FY 1973-1976 will amount to about 36.3 percent.

In terms of outlays, the DOD budget calls for \$92.8 billion, compared with \$84.8 billion in the current fiscal year, and is less than 6 percent of the Gross National Product (GNP), 16.3 percent of net public spending vs. 16.8 percent in FY 1975.

For the period of FY 1977-1980, projected outlays come to \$104.0, \$119.0, \$130.0, and \$140.0 (billions), respectively.

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Outlays are projected for the three-month period, July, 1, 1976-September 30, 1976, to provide as required by law for the transition to the new fiscal year prescribed by the Congressional Budget Act of 1974. This figure is estimated at \$25.4 billion.

"There is absolutely no economic stimulus in this budget," Defense Comptroller Terence E. McClary told newsmen at the Pentagon when he conducted his annual budget briefing.

He produced and discussed numerous tables and charts during the course of the briefing to demonstrate the goal of raising the military's real spending power by 17 percent by 1980. He said that if there were no inflation that would put 1980 defense spending at about \$108.5 billion; assuming a fair amount of inflation, spending would rise to about \$140 billion.

The budget calls for DOD military and civilian personnel levels to drop about 38,000 by June 30, 1976. Defense related industry personnel, essentially contractor personnel, would drop about 25,000 from 1,494,000 to 1,469,000. This compares with the estimated 2,280,000 in fiscal 1964. The 1,469,000 represents about 4.8 percent of the total U. S. labor force.

Adjusting for the \$2.3 billion mentioned above for the increased cost of Navy shipbuilding already authorized by Congress and for inflation from FY 1975 to FY 1976, the \$24.4 billion in budget authority (BA) requested for the Procurement category reflects a real increase of about \$2.5 billion.

Increased investment is programmed for aircraft modifications and for procurement of aircraft spare parts and war reserve requirements. The Trident missile procurement funding in FY 1976 highlights the initial large investment toward production of this new missile system. Emphasis is continued on the Army tank program with additional M60A1 tanks programmed in the new budget year. Included in the emphasis being given to the Navy shipbuilding program is \$1.5 billion for procurement of 10 patrol frigates, two destroyer tenders, and two fleet oilers.

Partially compensation for the increases in the weapons system procurement are reduced requirements for programs such as the Navy F-14 aircraft and the Trident submarine programs. Details of these and other hardware procurement programs are further detailed in Section b of this Supplement.

R&D Program: Despite the fact that about \$700 million of the increase in R&D funding sought is going for pay increases and inflation, there is estimated to be about \$1 billion in constant dollar growth. This increase is related to a number of major weapon system programs such as the Trident missile, Air Force and Navy cruise missile programs, and the B-1 bomber as well as continued emphasis on systems in development such as the Air Combat Fighter program (YF-16) which enters full scale development. Emphasis will continue on research and exploratory development.

The overall DOD outlook on the proposed FY 1976 budget is that while it is still below the levels contemplated in last year's budget, it is a step in the direction that should result in significant improvements in the defense picture in the years subsequent to FY 1976.

ANNUAL INFLATION RATES

	CONSUMER PRICE INDEX	WHOLESALE PRICE INDEX*	GNP DEFLATOR	INFLATION ON DEFENSE BUDGET OUTLAYS TOA	
FY 1973 TO FY 1974	9.0%	16.1%	8.1%	9.4%	11.0%
FY 1974 TO FY 1975	11.9%	18.3%	11.3%	14.4%	13.3%
FY 1975 TO FY 1976	<u>9.5%</u>	<u>4.7%</u>	<u>9.0%</u>	<u>9.9%</u>	<u>8.4%</u>
COMPOUND TOTAL, FY 1973-76	33.5%	43.8%	31.2%	37.7%	36.3%
DEFENSE FORECAST, FEBRUARY 1974				23.0%	23.3%

*Based on unofficial forecast after January 1975

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